



## Agency Guidance for Local Tax Arrears / Withholdings in Error

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Employers are responsible for withholding all applicable occupational (local) taxes on employee wages. When an agency determines that an employee was not properly set up with the appropriate local tax code, the agency should make the appropriate updates in KHRIS as identified in the instructions below. KHRIS does not retroactively collect and pay occupational taxes and refunds can only be processed through the system for the current calendar year.

### **TAX ARREARAGES**

When the agency determines that an employee was not set up with the appropriate local tax code, they should add the appropriate codes in the system with a start date of the current payroll. If the agency should determine that additional taxes are due to the taxing authority, the agency should calculate the taxes due using the Tax Reporting Form Template and instruct the employee to remit any missed tax directly to the local tax authority. The tax paid by the employee to the authority will not be reflected in KHRIS, as it was not remitted through payroll. The tax authority should provide documentation of the tax paid.

- If an employee has missed occupational tax payment due to an agency-driven action, such as erroneous set up, failure to update work tax area (and resident tax area when appropriate), or incorrectly stopping an occupational tax withholding, the agency shall:
  - correct the occupational tax code on IT0207 and IT208 as appropriate
  - notify the employee of the update
  - provide the employee with information regarding the occupational tax due
    - the Personnel Cabinet has prepared a template as a guideline for agencies as to the content that should be provided to the employee
- If occupational tax payment is missed due to an issue with a BSI Tax Factory update in KHRIS not being made on time for a tax rate change or new tax of which we have been notified, the Personnel Cabinet will:
  - contact the occupational tax authority involved
  - provide written notification to agencies and affected employees, including the information needed for remitting the tax due

### **TAX REFUNDS**

When the agency determines that an employee was set up with an incorrect local tax code, they should examine the originating date of the error. KHRIS will process refunds of local taxes only in the current calendar year.

- If the error occurred within the current calendar year, the agency should:
  - correct the occupational tax code on IT0207 and IT0208 as appropriate
  - notify the employee of the update
- If the error occurred prior to the calendar year, the agency should:
  - correct the occupational tax code on IT0207 and IT0208 as appropriate but not prior to January 1 of the current year
  - calculate the additional refund due to the employee from the taxing authority using the Tax Reporting Form Template
  - Instruct the employee to contact the tax authority to request a refund of taxes paid in error for the prior calendar year

If employees contact a tax authority and are told that the authority only accepts payments and/or refund requests directly from the employer, the agency should work with Treasury to make the appropriate adjustment. The agency should:

- Submit the tax reporting form
- For payments, include a check with the reporting form
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Treasury will file the appropriate return with the tax authority. Refunds requests will be returned to the employee when they are received from the tax authority. Depending upon the time limit and/or circumstances, tax authorities may refuse to refund taxes for prior periods.

A copy of a template letter and form is available on our website at <https://hr.personnel.ky.gov/Pages/ProcessInfo-Taxes.aspx>. The purpose of the template is to provide agencies with a guide as to what information must be included for the employee to remit tax due to the authority. It does not include other information, such as any explanation of why the tax was missed, that the agency may add. This information, placed on agency letterhead and signed by an agency representative (such as a Human Resource Administrator) should serve as certification from the employer to the tax authority of the wage and tax for the employee.